WHAT BECOMES OF OUR TRADE BALANCES?

THE peculiar financial conditions which have prevailed here in the United States during the past two years have led to a renewal of the discussion regarding the disappearance of our foreign trade balances. The astonishing growth of our foreign commerce since 1897 gave much encouragement to the belief that we were about entering upon a career of great financial prosperity. This belief was greatly strengthened by the placing of certain foreign bonds at home, and also by the claim that we were lending abroad some of the millions due on our trade balances.

These flattering views of the problem have been much exploited by stock boomers and promoters, as affording conclusive proof that we were rapidly changing from a debtor to a creditor nation, with New York as the world's money center. In the newspapers and magazines, optimistic writers have vied with each other in picturing the representatives of the impoverished nations of Europe standing, cap in hand, before our American bankers, begging for the loan of a few millions to keep the wolf from the door. One of these enthusiasts, Mr. Charles R. Flint, in the *North American Review* of March, 1901, pitches his song of triumph in this key: "In other words, we are paying our way as we go, living on the best, spending all the money we want for luxuries, and still laying by, for a rainy day, like the thrifty Yankees that we are, at the rate of $54,000,000 a month, $13,000,000 a week, nearly $2,000,000 a day, $80,000 an hour. Every time the minute hand ticks a surplus reserve of $1,300 is posted to Uncle Sam's credit in the books of the world, after he has paid everything he owes to the world."

The confiding souls who had pinned their faith to these alluring pictures must have been rudely shocked by the revelations of the past few months. From these revelations it

appears that, so far from having a surplus reserve of $1,300 posted to his credit in the books of the world at every tick of the clock, poor old Uncle Sam has not saved enough to meet current expenses. Instead of laying by $54,000,000 a month, our American bankers have been scurrying all over Europe to borrow funds to avert disastrous panics in the stock and money markets. Furthermore, instead of New York's becoming the "world's financial center," it might truthfully be called the "world's begging center;" for it has earned this unique distinction by having borrowed more money in the past two years than any other city ever did before in a similar period. About June 1, 1902, Charles C. Schumacher, the well-known foreign exchange expert, estimated these foreign borrowings at $500,000,000. (This estimate has since been confirmed by other experts.)

These peculiar conditions have led people to ask: "What becomes of our trade balances? Why is it that after five years of the most prosperous foreign trade in our history we should be more heavily indebted to foreign countries than ever before? Instead of having to borrow these immense sums from foreigners, why do we not get cash from them in settlement of our balances?"

The current answer to these questions is that one part of these balances (usually estimated at from $150,000,000 to $250,000,000) goes to offset our annual foreign debts for interest dues, tourists' expenses, freights, etc., and that the remainder is used to finance American enterprises abroad, and to repurchase securities returned by foreign investors. As this last item is supposed to be the chief factor in the matter, I propose to consider it first.

Although the belief in this immense foreign liquidation of our securities originated among leading bankers and stock operators who are supposed to have some definite information on the subject, they are very backward in giving this information to the public. In his article on the "Commercial Invasion of Europe," in *Scribner's Magazine* (January, 1902), Frank A. Vanderlip estimates that in the preceding four years

we repurchased about $1,200,000,000 worth of securities; but what stocks they were, who sold them, or who bought them, is as profound a mystery to him as it is to all the rest of the world.

Of all the numerous advocates of this theory, Mr. N. T. Bacon is the only one who has even attempted to give any details on the subject. This writer estimates that from July 1, 1899, to December 31, 1901, we repurchased $525,000,000 worth of securities. This includes $125,000,000 worth of stocks of the Northern Pacific, Chicago, Milwaukee, and St. Paul, and Chicago, Burlington, and Quincy railroads that were bought in 1900 and 1901. In regard to the remaining $400,000,000 worth of stocks which, it is claimed, were repurchased in this period, Mr. Bacon appears to be in utter darkness. Here is his exceedingly lucid explanation of this part of the problem: "There has been a general tendency to a pronounced decrease in foreign holdings in spite of some increases in capitalization, and probably it will be safe to say that enough of these have come back from Europe, and at exaggerated prices, due to our boom, to make up the difference not otherwise appearing in this account—namely, about $400,000,000, or $160,000,000 a year." And this is all the evidence that has ever been brought forward to substantiate the numerous claims of this immense foreign liquidation.

That foreigners have in recent years parted with some of their American holdings is undoubtedly true. But what we want to know is, have these sales exceeded the new investments, and if so, has this excess amounted to between $200,000,000 and $300,000,000 a year? To these very essential questions we get no answer except the one just noted.

Now the only real unbiased authority on this subject that I can find is the reports of foreign dealings in our properties on the New York Stock Exchange and elsewhere. These reports are published in the newspapers; and although stock boomers, promoters, and other exploiters of the current theory may see fit to ignore them, they nevertheless constitute by far the most complete and authoritative evidence on

this question that has yet been given to the public. On turning to this new source of information, we find, to our no small surprise, that instead of there having been this immense liquidation, there was a vast increase of foreign investments here in every year of this period.

The transactions on the Stock Exchange by months in this period of four years were as follows:

Foreign dealings in American Stocks during the years 1898, 1899, 1900, and 1901:

1898.	Excess of Purchases. Shares.	Excess of Sales. Shares.
January	114,000	
February	280,000	
March	95,000	
April		40,000
May		136,000
June		6,000
July	14,000	
August		65,000
September	122,000	
October		91,000
November	30,000	
December	199,000	
Net excess of purchases		516,000
	854,000	854,000
1899.		
January		333,000
February	120,000	
March		51,000
April	28,000	
May	303,000	
June	72,000	
July	6,000	
August	109,000	
September		52,000
October	94,000	
November	197,000	
December	57,000	
Net excess of purchases		550,000
	986,000	986,000

1900.	Excess of Purchases. Shares.	Excess of Sales. Shares.
January		51,000
February	184,000	
March	418,000	
April	198,000	
May	136,000	
June	92,000	
July		77,000
August	31,000	
September	114,000	
October		55,000
November		73,000
December	381,000	
Net excess of purchases		1,298,000
	1,554,000	1,554,000
1901.		
January	372,000	
February	155,000	
March	244,000	
April	505,000	
May	110,000	
June	39,000	
July	59,000	
August	272,000	
September		35,000
October		164,000
November		86,000
December		38,000
Net excess of purchases		1,433,000
	1,756,000	1,756,000

(In a former article, the net excess of purchases during 1901 was placed at 1,080,000 shares: it should have been 1,433,000 shares, as given above.)

Here, then, we find that in these four years the purchases of our stocks for foreign account have exceeded the sales by some 3,743,000 shares. In other words, instead of dumping over $1,200,000,000 worth of stocks on our market, as Mr. Vanderlip and many others claim, it appears that the thirty foreigners have in these four years gobbled up about $250,000,000 worth more. Small wonder it is that there should be this quiet understanding among stock boomers and optimistic trade balance experts to treat these records with silent contempt.

It has been urged that these records are not trustworthy; that they are only rough estimates, and that they take no account of the transactions of international bankers and others outside of Wall Street. In reply to these objections I may say, first, that the records were taken mostly from the New York *Evening Post.* In a few instances where that paper failed to give definite information recourse was had to the *Evening Sun, Press, Times,* and other New York papers. It is true that the figures are only estimates, but when it is seen that in most cases the estimates of three or four papers pretty nearly agree, it is fair to assume that the figures are approximately correct. If it were true, as Mr. Vanderlip asserts, that $1,200,000,000 worth of stocks were returned in this period, it is hard to believe that the *Post* could have made such a horrible mess of it as to report that there was an excess of purchases amounting to nearly four million shares.

In its issue of February 26, 1902, the *Times* publishes this statement: "It is said by prominent foreign exchange experts that, even should gold go out, it is unlikely that it will be in any considerable volume, for the reason that the present strength of sterling and the urgent demand for bills are due to the large sales of American stocks by London since the announcement of the Administration's contemplated action in the Northern Securities matter. These sales now total about 120,000 shares." An examination of the market reports of the *Times* for the period mentioned shows that 120,000 shares of stocks were sold for foreign account on the Stock Exchange. Similar statements might be quoted from every one of the leading newspapers, showing that these records are generally regarded as pretty good authority in this matter. However, it is not necessary to prove that these records are even approximately correct. If they are within a mile of it—that is to say, if foreigners bought only a dozen shares more than they sold, instead of nearly four millions—it would be sufficient to condemn this current theory.

It has been claimed that these records take no account of dealings on direct orders, or the dealings in our securities on the London Exchange. But investigation shows that such

transactions are generally of the same character as those on the New York Stock Exchange.

But, it will be asked, is it not possible that this liquidation may have taken place outside of Wall Street? As an answer to this, it can be said that all the reports we get of such outside transactions of international bankers and others furnish a more complete refutation of this liquidation theory than the records of the Stock Exchange. For these reports are all of new investments of foreign capital. There are no reports that I can find of foreign liquidation of our securities outside of Wall Street. Here is a list of these transactions copied from the *Press, Sun, Times,* and other New York papers:

FOREIGN TRANSACTIONS OUTSIDE OF STOCK EXCHANGE.

In 1898, $6,000,000 worth of Reading railroad bonds, by an English syndicate; 50,000 shares of Erie, first preferred; $52,000,000 worth of New York Central stock; 30,000 shares of Northern Pacific; a big block of Pittsburg and Western 4's, marketed in London; and $10,000,000 worth of Southern Pacific bonds disposed of by Speyer Brothers, of London. In 1899, 10,000 shares of People's Gas Company, of Chicago, and the New Jersey Glass Works (capital, $30,000,000) sold to Englishmen; Independence Gold Mine and Rob Roy Gold Mine sold in London for $12,000,000; 50,000 shares of railroad stocks bought in open market for London account by Speyer & Co. In 1900 Speyer Brothers, of London, bought $8,600,000 worth of stocks, and Kuhn, Loeb & Co. bought $35,000,000 worth of Third Avenue railroad bonds. In 1901, spool thread companies absorbed by English capital, $68,000,000; Cramp's shipbuilding plant absorbed by an English company, and $35,000,000 worth of St. Louis & San Francisco railroad bonds bought by J. & W. Seligman; and $50,000,000 worth of United States steel sold abroad.

This, however, is only a partial list. It does not include a tithe of the vast amounts of foreign capital that has gone into J. P. Morgan's numerous ventures. The exploiters of the current theory will have it that this ubiquitous individual is indulging his earth-acquiring propensities with none but American capital. But we know better than that. Besides being an international banker, Mr. Morgan is also a promoter, and it is in this latter character that he has attained his greatest distinction. During the last twenty years it is safe to say that he has invested more foreign capital here than all the other promoters put together. In the market reports one

may frequently see such items as the following: "London again was a large buyer of stocks, houses close to J. P. Morgan being among the chief purchasers" (*Times*, September 5, 1901). Mr. W. C. Hudson, in his article on "Financial Leaders" in the Brooklyn *Eagle*, thus describes Mr. Morgan: "He sits in the boards of directors of the various railway companies controlled by the Vanderbilt group, not for the purposes of observation, but as the financial agent of the Vanderbilt interests and as the representative of foreign investments." This describes the great promoter exactly. He is the representative of foreign investments in pretty much all of the undertakings with which his name is identified. It is for this reason and no other that English investors have insured his life for $20,000,000, a greater distinction than they ever before conferred on any individual.

Speaking of foreign investments, the *Bankers' Magazine* for July, 1902, says: "One reason, perhaps, of the successful wielding of capital here in the consolidation of great industrial interests has been the cessation of speculation in Europe. There is every reason to believe that much foreign capital has been used in the great operations of J. P. Morgan." This is unquestionably true; foreign capital has played a far more important part in the formation of all our great trusts and corporations than people have any idea of.

A great deal of this foreign money doubtless went into Mr. Morgan's ventures in 1900—most of it, perhaps, in United States Steel. Mr. Bacon appears to know of only $10,000,000 that went into this concern. But, as usual, he is below the mark. When the vote was taken on the proposed $200,000,000 bond issue, the largest blocks of stock were voted by foreigners. The value of these stocks amounted to about $50,000,000. But this does not represent all the foreign capital invested in this giant trust. Besides the stocks just mentioned that were sold in blocks to foreign syndicates, a great many shares were sold in the London Stock Exchange. In 1901 an English authority stated that "more British capital had gone into U. S. Steel than had ever before been invested in any foreign industrial stocks." It is not

necessary, however, to indulge in any guesswork as to how much foreign money is being invested here by J. P. Morgan, Kuhn, Loeb & Co., Speyer Brothers, J. &. W. Seligman, August Belmont, and other big bankers and promoters. It is only necessary to emphasize the fact that there is no record to be found of any outside liquidations to offset these outside purchases. Whenever there has been any considerable investments of foreign capital here, the enterprising Wall Street news agents are sure to get wind of it. Thus, in its issue of November 18, 1899, the *Press* reports that "A large amount of railroad securities has already been sent to Europe, and the aggregate which will be so forwarded by the end of next week will not be far from 200,000 shares, representing a par value of $20,000,000." As there was an excess of purchases of 197,000 shares for foreign account on the Stock Exchange that month, this report is evidently not far from the truth. Now, if there had been a counter movement of stocks that year amounting to say $250,000,000, it is morally certain that the newspapers would have had some knowledge of the fact.

The only reported sales in the period treated by Mr. Bacon are those on account of the Northern Pacific contest. But as he cannot prove that Mr. Morgan and Kuhn, Loeb & Co. used the money of American investors in their purchases, and it is not likely that they did, his estimate amounts to nothing. Granting, however, that the money used in the transaction did belong to American investors, the foreign sales were more than offset by foreign purchases on the Stock Exchange, to say nothing about the outside transactions.

In spite of all this evidence to the contrary, however, we are expected to believe that this current theory must be true because it is indorsed by the international bankers. Stock Exchange records, reports of outside transactions, and other facts count for nothing against the mere say-so of parties who are never willing to have their names published. For it is a fact that up to the present time not a solitary one of these bankers has come out publicly and affirmed that his house has, in this period, sold more stocks for foreign account than it has bought. Some years ago the editor of the *Financial*

Chronicle sent out ten letters to as many different bankers (no names given) requesting information on this subject. One banker failed to reply; eight said they had no time to examine their books, but still they believed that there had been considerable liquidation; the tenth said he had made a hasty examination of his books, and they showed a slight excess of purchases for foreign account, but still he was convinced that the experience of other houses would show that there had been considerable foreign liquidation. If there has ever been any more successful attempt to coax definite information out of these parties, it has escaped my notice. The fact is that since these international bankers have branched out as railway magnates, stock jobbers, and promoters, they have become just as unreliable and just as fond of propagating cock-and-bull stories as any other class of stock boomers.

As early as 1897, according to newspapers, these bankers claimed that Europe was about sold out of American stocks. In its issue of July 31, 1897, the *Evening Sun* stated that "As to the location of our stocks, Europe has been bought to a standstill. It has sold American stocks ever since the Baring panic, until it now holds probably a smaller amount than at any time in the last ten years." In its issue of May 22, 1898, the *Times* said: "Europe cannot pay us in stocks, because she has not got them." Two years later the London correspondent of the *Times* (December 5, 1890) claimed that English investors had returned $750,000,000 worth of our stocks since the beginning of 1898. When Mr. Bacon was in Germany in 1900 the bankers there assured him that Germany's American holdings did not exceed $200,000,000; and Mr. Vanderlip, in his Wilmington address, claimed that as a result of our high prices the continent was swept almost clean of our stocks, and the holdings of English investors greatly reduced. Yet, according to Consul General Guenther's report to the State Department, May, 1900, German investments in this country amounted to fully $1,000,000,000. Mr. Bacon estimates the French investments here at $50,000,000; while a report of the French government in 1902 puts them at $120,-

000,000. In its issue of January 7, 1901, the *Times* stated that "One fact very clear to the bankers is that Europe has stopped sending back American stocks, having practically no further deliverable supply. Large volumes of our securities are of course held abroad, but speculative holdings have been liquidated." But the fact that, three months later in the last year of this four years' liquidation, English investors insured Mr. Morgan's life for $20,000,000, proves very clearly that neither Mr. Vanderlip nor these other bankers knew anything about the matter.

If there really had been this enormous liquidation in railroad securities, its effect would certainly be seen in the retirement of international bankers and their representatives from the control of our railroads; but instead, we find the representatives of J. P. Morgan, Kuhn, Loeb & Co., Speyer & Co., J. & W. Seligman, and August Belmont more prominent than ever before in the control of these properties.

From 1897 up to the early part of 1901, this current theory was based on the claim that Europe returned these securities because she could not settle her trade balances with us in cash. But a glance at the facts proves that this claim was a barefaced fraud. Europe had money enough for home needs, and millions to spare for investment abroad. The state of the foreign money market in the first year of this period is plainly indicated by the fact that in November, 1898, an issue of Southern Pacific bonds ($10,000,000) floated by Speyer & Co., was oversubscribed six times—$20,000,000 in London, $20,000,000 in Amsterdam, $20,000,000 in Berlin. Besides this, the reports show that about $70,000,000 worth of other stocks was sold abroad that year. In 1899 the *Times* of June 5 stated that money in London was abundant at moderate rates; besides subscribing for several foreign loans, English investors were then buying many American securities. But the clearest proof of the audacity of this claim is to be found in the following statement from the *Evening Post* of September 21, 1899: "On the Stock Exchange there were heavy loans by foreign banking houses. Kuhn, Loeb & Co., placed about $4,000,000; I. S. Wormser, $2,000,000; Speyer & Co., Heidel-

back, Ickelheimer & Co., Lazard Freres, and J. & W. Seligman also loaned large amounts." Similar statements appeared in the same paper several times that year. On the other hand, the money market here was very tight from March, 1899, to December, when Wall Street experienced the most severe one-day financial panic in its history. In 1900 money was plentiful in Europe, as is proved by the oversubscriptions to the numerous loans brought out there—the British war loan of $150,000,000 was oversubscribed ten times—and also by her heavy purchases of stock in this market on the Stock Exchange. But the press reports show that there was not a whole month in the year when our market was wholly free from fears of stringency. Thus the *Press* of June 20, 1900, stated that "Should derangement of the money market be threatened at any time by the reason of exports of gold or because of other events, relief could be most readily afforded through the purchase of bonds." In the latter part of that year there was a decided stringency in the money market, and call money went up to 20 per cent. In 1901 the financial condition was much worse. Money began to get tight in March, and it kept growing tighter to the end of the year. In its weekly article on the financial situation the *Sun* of October 7, 1901, said: "It is now manifest that only the bond purchases of Secretary Gage averted a money panic of the first dimensions in the business world."

Another claim that had been much exploited at different times since the beginning of 1899 was that we were lending abroad a good part of the money due on these balances. In February, 1899, these loans were estimated at about $100,000,000. Early in 1901 the *Times* estimated them at "several hundred million dollars." At that time this claim was much exploited in Wall Street; in fact it constituted the chief bull argument in favor of the great boom in prices which took place about that time. "What better proof," it was said, "could there be than this, that we were changing from a debtor to a creditor nation, with New York as the world's money center?"

This sublime faith in our financial greatness continued to

prevail until after the panic, when it was rudely shaken by a dispatch from the Paris correspondent of the *Evening Post* (May 22, 1901), which stated that, instead of lending these vast sums to Europe, we were at that time heavily indebted to her. Two days later the *Post* published another dispatch, from its London correspondent, contradicting what the Paris correspondent had said and claiming that Europe was still indebted to us. On the same day, however, the *Sun* (May 24) published a statement from foreign bankers here fully confirming all that the *Post's* Paris correspondent had said on the subject. The *Sun* said: "Important banking interests in this city admitted yesterday that the belief that has generally obtained that the United States has at the present moment a great international credit balance—that is, a great mass of debt owed to this country by Europe—*is not well founded.* As a matter of fact, the United States is at this time in reality, through the operations of the foreign exchange market, borrowing from Europe, although this debt will be settled later in the season, when our grain and cotton crops are shipped abroad." (The prediction that this debt would be liquidated by grain and cotton shipments later on proved to be another glaring miscalculation of the foreign bankers, for when the export season was over this foreign debt was larger than ever before.)

The *Sun* tried to break the force of this somewhat belated admission by referring to the claim that we were lending money abroad as "a popular misunderstanding." But this phrase conveys a false idea of its origin. The claim was not originated by obscure or irresponsible parties; it came forth with the positive indorsement of prominent bankers, treasury officials, and leading newspapers, including the *Sun* itself. Among its most conspicuous indorsers were Secretary Gage, Chauncey M. Depew, James H. Eckels, T. L. James, President of the Lincoln National Bank, Henry Clews, Vice President Fahnestock, of the First National Bank, who boasted that we had "money to burn," Charles R. Flint, and George E. Roberts, Director of the Mint. In an address before the Bankers' Club, of Chicago, March, 1901, Mr. Roberts said that "Our

trade balances are so large that to attempt to collect them in cash would ruin our customers. A nation with power to amass such credits becomes of necessity an *investor* in all parts of the world." What must people have thought when they learned from the *Sun's* admission that all this was sheer rot and humbug, that Europe did not owe us a dollar, that instead of playing the part of Shylock among nations, we were at that time borrowing these enormous sums from foreign bankers?

It is quite probable that some of those who exploited this claim honestly believed in it; but the foreign bankers who were lending these immense sums here cannot make that excuse. They knew that the claim was false. They knew, too, that all the talk about Europe's being unable to settle her balances in cash was equally false. And yet they allowed both falsehoods to be exploited for stock-jobbing purposes without making any effort to undeceive the public.

Hence we have good and sufficient reasons for disputing the authority of these bankers when it is cited in the support of this liquidation theory. Their testimony, with its bias, its paucity of facts and details, is not so conclusive as the records of the New York Stock Exchange and reports of outside dealings for foreign account.

In all but one of the articles which I have read on this subject the writers studiously refrain from stating just where this liquidation took place—whether on, or off, the Stock Exchange. In the exceptional article, however, this precaution has not been observed. Upon a rereading of Mr. Bacon's *Yale Review* article, November, 1900, I find this statement, which had been previously overlooked: "The English made stupendous losses in Confederate bonds during the war, and again in 1873, with the collapse of the Reading Railroad, and other of their favorite investments; but it is probable that their heaviest loss was in the panic of 1893, which was immensely aggravated by their dumping all manner of securities on the *New York Stock Exchange*, for anything they would bring." Here at last was something definite, positive, and worth looking up.

Investigation of the Stock Exchange records for 1893 brings to light the astonishing fact that the purchases of stocks for foreign account exceeded the sales in eleven months out of the twelve. Here are the net transactions by months:

NET TRANSACTIONS FOR FOREIGN ACCOUNT ON THE NEW YORK STCCK EXCHANGE.

1893.	Excess of Purchases. Shares.	Excess of Sales. Shares.
January	61,000	
February	97,000	
March	68,000	
April	86,000	
May	140,000	
June	45,000	
July	95,000	
August	107,000	
September	5,000	
October		16,000
November	40,000	
December	76,000	
Net excess of purchases		804,000
	820,000	820,000

Mr. Bacon is considered the leading authority on this subject, and his article in the *Times* is pronounced by that paper "the most careful and enlightening discussion of the mooted question whether we owe Europe, or Europe owes us, that has ever been undertaken." From the optimistic point of view, he certainly deserves this high compliment. Mr. Bacon has a happy way of looking at things that is bound to endear him to the average stock boomer and promoter. In the words of the poet,

> Nature gave him, whate'er else she denied,
> A nature sloping to the sunny side.

But sometimes this amiable trait may lead one astray. In the present instance it has led Mr. Bacon woefully astray.

His optimism has inclined him to this current theory, and to demonstrate its correctness he seeks information from the very same sources who exploited those preposterous yarns about Europe's money poverty and this country's money-lending capacity. And these parties fully sustain their repu-

tation for trustworthiness by making him believe that in 1893 foreigners dumped this vast quantity of American securities on the New York Stock Exchange. These facts concerning foreign dealings in this earlier period furnish about all the additional proof needed of the utter absurdity of this whole theory. We see now, as clearly as we can see anything, that it is based upon nothing but very wild guesswork, and the biased testimony of stock jobbers and promoters.

Nevertheless, the theory is being exploited with as much confidence as ever, and the financial oracles are now utilizing it to account for the disappearance of last year's trade balance. But, as usual, the explanation is only a mere assertion; no facts, no figures of any kind are brought forward to prove that it has any substantial basis, although it must be admitted that, for the first time in recent years, the transactions for foreign account on the Stock Exchange show an excess of sales. Here are the transactions by months:

DEALINGS IN AMERICAN SECURITIES FOR FOREIGN ACCOUNT ON THE NEW YORK STOCK EXCHANGE.

1902.	Excess of Purchases. Shares.	Excess of Sales. Shares.
January	19,000	
February		152,000
March		46,000
April	177,000	
May	126,000	
June		53,000
July		160,000
August		19,000
September		38,000
October		142,000
November		161,000
December	22,000	
Net excess of sales	427,000	
	771,000	771,000

Here at last we have results that must send a thrill of joy to the hearts of the stock boomers, and give renewed life to the claim that we are rapidly becoming a creditor nation. But further investigation is apt to put a damper on these hopes of future financial greatness; for while these Stock

Exchange transactions proved to be a fair index of all foreign dealings here in the preceding four years, they are grossly misleading as to 1902. The outside transactions for foreign account last year, instead of being of the same character as those on the Exchange, were pretty much all purchases, just as they were in the preceding four years.

Here is a list of such transactions that have come under my notice during this period:

$15,000,000 in Texas oil fields; $5,000,000 in Union Pacific stocks; $100,000,000 beef merger bonds, underwritten by J. P. Morgan and Baring Brothers, of London; $15,000,000 Gulf and Manitoba railroad bonds taken by foreign capitalists; $16,000,000 Alaska Central railroad bonds floated in London; Camp Bird Gold Mine sold to Englishmen for $10,000,000; $10,000,000 Pennsylvania Car Trust bonds floated in London; big block of Rock Island bonds floated in London; large volume of Union Pacific bonds bought in open market for foreign account; De Cannar Mines, Nevada, sold to Venture Company, of London, $5,000,000; Kansas City, Mexico, and Orient railroad bonds, $2,000,000, sold abroad. Total, $185,000,000 (estimating the Rock Island and Union Pacific bonds at $7,000,000).

Besides these, it is certain that a good deal of the investments of foreign bankers here last year were made with foreign money. Of these, I note the following:

Choctaw, Oklahoma, and Gulf Railroad, $15,000,000, Speyer & Co.; Manhattan Transit Company, $10,000,000, Metropolitan Securities Company, $30,000,000, Kuhn, Loeb & Co.; International Harvester Company, $120,000,000, J. P. Morgan; Georgia Central Railroad, $15,000,000, J. P. Morgan. (These two purchases by J. P. Morgan form but a small part of his investments last year.)

Now the amount of foreign capital represented in the first list of purchases foots up to about $185,000,000. Assuming that only fifty per cent of the investment of these foreign bankers in the second list is foreign capital (it is more likely to be ninety per cent), the total foreign investments outside of Wall Street last year must have aggregated $275,000,000. In addition to these, it is known that last year large amounts of securities were pledged to foreign bankers as collateral for money borrowed to relieve the monetary stringency here. In the *Forum* for July-September, 1902, A. D. Noyes states that in May, 1902, $31,000,000 was borrowed from abroad for this purpose. Referring to our other foreign borrowings, the *Post*

of October 11, 1902, publishes this statement: "Pointing out the unprecedentedly wide extension of American floating obligations this year, the *Frankfurter Zeitung* writes: 'These loans have been raised not only in England, France, and Germany, but Austria itself has become a creditor to the extent of a hundred million crowns; the Austrian Credit Mobilier, Austrian Credit Foncier, and the Union Bank have great amounts of American bills in their portfolios.'" We also borrowed immense sums later on in 1902 before and after certain financial leaders had combined to avert gold exports in order to bolster the money market. (The *Post* of March 9, 1903, says: "The big buying which held up the market was done by big bankers with foreign money)." Including the $31,000,000 borrowed in May, it is safe to estimate our total borrowings last year at $100,000,000 (I think it was much more), for which bonds and stocks were pledged as collateral. This makes in all about $380,000,000 worth of our properties that passed over to foreign control in 1902.

As to foreign liquidation outside of the Stock Exchange, I find no evidence of any but a few bonds that came back under Secretary Shaw's call. The Morgan investment in the Louisville and Nashville Railroad has been cited by the *Evening Post* and other authorities as one instance of the immense foreign liquidation last year. But as Mr. Belmont did not let go of any of his holdings, and as the shares transferred to Morgan by Gates were bought from individual holders in this country, the chances are that the road is more under foreign control than ever before. Now, if we assume that $5,000,000 worth of bonds (a liberal estimate) came back from abroad under Secretary Shaw's call, and that the 433,000 shares of stocks sold on the Stock Exchange averaged $100 a share, the total foreign liquidation was under $50,000,000, leaving the net increase of foreign investments here at fully $330,000,000.

The conclusions to be drawn from the foregoing statements of foreign dealings here in 1893, and during the last five years, will no doubt surprise many students of this question. It will be said that the figures prove too much, or, as one critic

puts it, "they increase the difficulty of accounting for our missing balances."

The plain answer to this objection is that no problem can be made more difficult of solution by stating the facts as we find them. The foregoing reports of foreign dealings on and off the Stock Exchange were copied from leading New York newspapers; and as they are not at all partial to my view of this matter, I have no reason to assume that they would deliberately magnify the reports of foreign investments here, and suppress any information as to reports of foreign liquidation. These reports, taken in connection with the condition of our money market, and the greater prominence of foreign bankers here, prove to a certainty that the whole thory of this immense foreign liquidation is one of the most brazen falsehoods that have ever been imposed on the American public. Instead of a liquidation of over one billion dollars in the past five years, these reports show that there has been an increase of foreign investments here of nearly that amount. Furthermore, my investigation of the character of foreign dealings here in 1893 convinces me that this theory is equally false in regard to the five years before 1898.

Still the question remains to be answered: What becomes of our trade balances? If they have not gone to repurchase securities, where have they gone? So much space has been devoted to the consideration of this liquidation theory that only a brief statement of what seems to me the true answer to this question can be given here.

Within the last two years it has been claimed that a good part of our balances has gone to finance American enterprises. The most popular estimate places this outlay at about $150,000,000 yearly. But, as usual, it is guesswork. There is no real proof that one quarter of that sum goes on this account. Many of the so-called American undertakings, like those in England, Canada, and Mexico are being financed by foreign bankers in this country. Moreover, the monetary conditions which have prevailed here during this period conclusively prove that we have no such immense sums to spare for investments abroad. But, even if this estimate were cor-

rect, the amount is more than offset by our foreign borrowings and the new investments of foreigners in our properties.

Under these circumstances I am led to conclude that our balances have gone to offset our annual foreign debts for earnings of foreign capital, hoardings of immigrants, expenses of Americans abroad, cost of ocean freights, and for military expenses outside of the United States. One of these items, immigrants' hoardings, is usually overlooked, but I am convinced that it amounts to more than any other item except possibly the earnings of foreign capital. Furthermore, the fact that during the past three years foreigners have purchased all these properties, in excess of what they sold, and also loaned us these immense sums without having to send us any gold proves that our balances are not even big enough to offset these annual debts; hence, instead of having a big surplus to repurchase securities, etc., we are rolling up a big deficit every year, which has to be met by further borrowings or by selling more of our properties to avert gold exports.

That is the plain meaning of these foreign borrowings, or sterling loans as they are sometimes called; they represent a deficit and nothing else. But this is not all. There is good reason to believe that the monetary stringency which has manifested itself so frequently since the beginning of 1899 is mainly due to the diversion of our currency in the vaults of the foreign banks here in part settlement of this deficit. Some facts which tend to corroborate this view are the otherwise unaccountable prosperity of these institutions, and the disappearance of our gold currency. Within the past three years, these banks have been making extensive loans in Wall Street; and frequently they appear to have been the only parties that had any money to lend. Where did they get this money? Since 1896 three-fourths of the increase in our currency has been gold coin, and yet it is well known that there is actually less of this kind of money in general circulation that is passing from hand to hand than there was eight years ago. As our own banks do not appear to have this gold, it seems quite reasonable to assume that the foreign banks must have it and are lending it out in Wall Street and elsewhere.

Some of our financial leaders contend that this monetary stringency is mainly due to certain defects in our currency system. But before this view can be accepted its advocate should explain the disappearance of our gold currency, and the great prosperity of the foreign banks, which has been attained without bringing gold from abroad. And they should also explain the astounding fact that in June, 1902, after four years of the greatest export trade in our history, we were more heavily indebted to these foreign bankers than ever before. If these unusual circumstances are due to an imperfect currency system, rather than to the growth of our annual foreign debts, there should be no difficulty in proving it to the satisfaction of the American public.

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